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THE

CANADIAN PACIFIC COMPANY'S

METHODS OF FINANCING, ETC.

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To the Editor of the WITNESS.

SIR,—Will you allow me space in your paper to refer to a few points connected with the proposal of the Government to aid the Canadian Pacific Railway by a loan of thirty millions of dollars. The matter is so important, and the amounts involved so large, that the public have scarcely yet realized the full scope and bearing of what is proposed to be done; and it is manifest that the Government intend to rush the resolutions which they have submitted to the House of Commons through Parliament before the whole subject can have been thoroughly taken in by the public mind.

The first question which naturally suggests itself in connection with the Government's proposals is,

FROM WHOM CAME THE PROPOSITION TO HAVE THE LINE COMPLETED BY THE END OF 1885?

The contract with the Canadian Pacific Company was to finish the line by 1891. It cannot be pretended that good faith toward British Columbia necessitates the completion of the road earlier. The contract was deliberately entered into, and the terms of it fully discussed and well understood by all the Provinces.

The President of the Company states that it is in a position to complete the contract before the expiration of 1891. It therefore naturally occurs to enquire if the Government have asked to have the road completed by the close of 1885. If not, then the Company must have made the suggestion or the request, and, we may fairly presume, in its own interest. If not in its own interest, then why, it may be asked, should the country be called upon to supplement a liberal contract by a loan of thirty millions of money, to be converted probably into a very permanent investment.

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If the speedy filling up of the North-West is the impelling motive, the answer is that the railway already reaches into the territory which can be cultivated and where settlement is expected and desired. To carry the road across the Rocky Mountains will not bring settlers into the country, nor will it in any way conceivable to ordinary minds expedite the filling up of the North-West Territory with population. Emigrants do not come from the Pacific Slopes, nor are they likely to go there in large numbers.

An analysis of

THE EXPENDITURE OF THE COMPANY

is interesting. According to the returns laid before Parliament, the amount expended in connection with the Canadian Pacific Railway proper may be put down as follows :

On the main line, including $484,614 expended in connection with the Credit Valley Railway (hereafter referred to)	$23,563,564
On branches, Algoma and the North-West	3,827,092
Improvements on lines transferred by Government to the Company (no particulars given)	353,601
Rolling stock, not all specially required to operate Canadian Pacific Railway	8,710,240
Materials said to be on hand	4,025,604
	$40,480,101
Deduct from this sum floating debt, to be paid by the Government under the proposed arrangement	7,500,000
Net expenditure	$32,980,101

It is manifest that the amount put down for rolling stock is far in excess of what should be required to operate the main line of the Canadian Pacific, and it is highly probable that a very considerable portion of the stock said to have been procured has been added to what were the Canada Central and Occidental lines.

Then the amount for material on hand is simply enormous, but taking the whole expenditure as it stands, and deducting the amounts which are admitted to be outstanding in the shape of floating debt to be paid out of the money proposed to be given by the Government, the total expenditure, it will be seen, is $32,980,101.

It is interesting to note what the company has received from the Government.

It has been paid in cash on account of the $25,000,000 subsidy	$12,289,211
It has earned and is entitled to have transferred to it 13 million acres of land, which, valued at $2.36 per acre (the Company's price), amounts to	30,680,000
Total	$42,969,211

The positive contributions, therefore, of the Dominion up to this time have been more than sufficient to meet all the expenditure admittedly incurred, an expenditure which is, no doubt, very much in excess of anything which was really required.

But it is stated that the Company has not been able to realize on the lands transferred by the Government. It is a natural question to ask why, and the answer is not difficult to give.

The Company has so conducted its operations as to destroy all confidence in it, and it has, in addition, irritated every other interest with which it has come into contact, to such an extent as to create enemies where it ought to have had friends. Its land bonds were launched at a time when money was plentiful and the security was a favorite one, and, in the hands of others, would have speedily realized all the money needed to carry on the work.

But the gentlemen having the control of the company, not content to direct their attention to the great work of completing the Canadian Pacific line, and with ambitions extending far beyond that enterprise, which to ordinary individuals would seem a vast undertaking, have launched out in all directions and incurred liabilities for

EXTENSIONS AND SUBSIDIARY LINES

to an enormous extent.

They report having paid :—

(1) For the lines from Callender to Montreal and Brockville	$3,203,050
(2) To secure a route to the sea board	3,482,251
(3) Land for termini	390,789
(4) Expenses connected with land bonds, &c.	372,880
	$7,448,970

It does seem to poor ordinary mortals, not intoxicated with their own self-importance, that prudence would have dictated the completion of the work which they had contracted to do, before launching out into extensions costing such vast sums of money, and for which they had made no adequate financial provision.

Let us look at these items of expenditure. From whom was the Callender line, or, in other words, the Canada Central line, purchased and why was it purchased?

The Vice-President of the Canadian Pacific Company, it was well known, controlled the Canada Central line. Therefore, the conclusion cannot be avoided that in his capacity as a Director of the Canadian Pacific he purchased from himself, as a Director and the controller of the Canada Central, that railway. Would not ordinary respect for the representatives of the people in Parliament dictate that they should know exactly how much money was exchanged in connection with this transaction?

The Canada Central line had received a large subsidy from Mr. Mackenzie's Government. It was bound to afford facilities to the traffic of the Canadian Pacific, in fact it could do nothing else, it was its manifest interest to do so.

The same remark may be made in regard to the Occidental line. The object of constructing that line had been avowed over and over again to be the securing of the traffic of the Canadian Pacific line when complete. What urgent necessity, therefore, was there for the Canadian Pacific Company to expend money on either of these lines?

As to the propriety of a director in a great corporation being a party to transactions between the corporation and himself, there can be but one opinion. I shall refer you to the law on this subject before I close this letter.

The items forming the total expenditure put down under the head of

"ROUTE TO THE SEABOARD,"

are interesting. They are :

Paid in connection with the	
(1) South-Eastern Railway	$1,582,327
(2) The St. Lawrence & Ottawa	69,900
(3) The Atlantic and North-West	156,646
	$1,808,873
(4) Canadian North-West Land	600,097
(5) Advances to contractors on construction	600,000
(6) Sundry advances to carriers for back charges, and other matters incidental to traffic	473,281
Total	$3,482,251

No one has yet ventured to explain what pressing necessity there was for the Canadian Pacific Company to put so much money into the South Eastern Railway.

Neither have any particulars been vouchsafed in regard to the expenditure in connection with the Atlantic & North-West. Mr. Blake, in his admirable speech, which ought to be read by every taxpayer in the country, asked some very pertinent questions in connection with this operation. It is understood that the Quebec Government left in the hands of the Canadian Pacific, when the transaction in regard to the Occidental line was completed, $100,000 for the completion of a line at the back of the mountain at Montreal; and it seems to be very well understood that not half of this amount has been paid on work actually done (and long ago abandoned) in making the line. It would be interesting to know if there was included among the recipients of the large sum paid away, any members of the House who were instrumental in getting through the legislation connected with the Atlantic & North-West.

The Hon. Minister of Railways explained that the line was intended to make a connection with the Grand Trunk. In this, as in some other questions, the honorable gentleman was not careful to ascertain the facts, or he would have been aware of what everyone resident in Montreal, who takes any interest in these subjects, perfectly understands, that the line was projected to pass across the Grand Trunk by an over-head bridge, and no connection was intended to be made.

This leads to another enquiry, namely, as to the expenditure put down in item No. 3, lands for termini, $390,789. It is generally

supposed that the principal object of building the railway, as it was proposed to be made, was to reach certain lands near the bank of the river St. Lawrence and lying west of the water-works, which had been purchased for terminal facilities. Is the cost of these lands included in the item I have referred to, and, if so, to whom was the money paid?

The item under the head of advances to contractors is a large one to pass without more particulars being afforded to the House in regard to it. It would be a pertinent question to ask whether the amount was disbursed in connection with the North American Construction Company. If not, on what account was it advanced?

The Hon. Minister of Railways has given an explanation about the investment in North West land stock, which will strike every business man as being most unsatisfactory. For a Company like the Canadian Pacific to try to sustain the stock of other companies by purchases is a singularly irregular proceeding, and although the powers of the Canadian Pacific are extensive, and such as Parliament would not be willing to give to any other railway corporation in the country, it would puzzle the Hon. Minister of Railways to point to any legislation in regard to the Company authorizing such use of its funds.

The sixth item of $473,281 may mean anything; the terms in regard to it are so very indefinite that it may cover payments of any description.

The point about all these items is whether, looking at their character, Parliament should be content to pass the proportions of the Government without a minute and searching enquiry into the expenditure of the Company.

One thing seems to be certain, that the gentlemen about whose wealth and ability to carry out this contract we have heard so much in Montreal, seem not to have put a single dollar of their own money into the corporation, except it be that they have purchased a few shares of the Company at prices below what was being offered in open market. The transaction with

THE CREDIT VALLEY COMPANY

is a curious one. The President of the Canadian Pacific was known to be a large holder of securities of the Credit Valley before the con-

tract with him and his associates was made by the Government for the construction of the Canadian Pacific.

The terms of that contract required a million dollars in cash to be deposited with the Government. When the Company got short of funds, it appears that they requested the Government to release the $1,000,000 cash, and a compromise appears to have been effected. The Canadian Pacific Company appear to have purchased from their *own President the Credit Valley securities*, and then to have taken them to the Government, who complacently accepted securities valued at $484,610, for one million dollars in cash. Happy Company ! Most obliging Government ! The Company, by the transfer, got the use of $515,390 of cash.

We are told now that these securities are to become again the property of the President of the Canadian Pacific. Well, we may *think* what we like. It is curious, to say the least of it, that these particular securities should have been the most available and acceptable for deposit with the Government.

The Consolidated Railway Act, 1879, contains the following clause :—

" No person holding any office, place, or employment in or being concerned or interested in any contracts under or with the Company, shall be capable of being chosen a director or of holding the office of director, nor shall any person being a director of the Company enter into, or be directly or indirectly, for his own use and benefit, interested in any contract with the Company, not relating to the purchase of land necessary for the railway, or be or become a partner of any contractor with the Company."

Don't let any one suppose that the word " contractor " as used in this clause means only a person who has undertaken to build a railway. It has a much wider significance; and if transactions such as I have referred to were entered into by any chairman or director of an English railway company he would not hold his position twenty-four hours, and would probably be subjected to extremely unpleasant proceedings.

When we come to examine into the details of the arrangements, about

THE ISSUE OF THE STOCK OF THE CANADIAN PACIFIC COMPANY

we get some important lessons in financing.

I notice that Mr. Blake has asked for a return in connection with the twenty-five millions of stock said to have been taken by the

original incorporators—or, in other words, directors—of the Company. It will be curious to ascertain at what rate this was taken. An impression prevails that it was sold at forty cents on the dollar. If so, there have been opportunities since the transaction was entered into for those who bought it, to realize a large profit; and one would naturally anticipate that if such profit was realized, it would, on the theory upon which the Company's affairs have been conducted, find its way into the coffers of the Company.

The total amount of the stock issued and pledged appear to be $65,000,000, and the amount of money received upon it is reported as $30,000,000. When it is considered that the Company has already paid away nearly $2,500,000 in interest, has to pay the Government for interest upon the stock something like $16,000,000, and to disburse about $3,000,000 more for interest—that is the difference between three percent and five percent during the period of construction, which is estimated to be two years—it will be seen that the disbursements for interest, when taken out of the amount reported to have been received, leave the magnificent sum of $8,500,000 as net receipts on the stock. *Was ever such admirable financing before seen?*

The explanation given in regard to

THE NORTH AMERICAN CONSTRUCTION COMPANY

in the House by our fellow-townsman, the member for Cardwell, is of the most interesting character. We are told that the Construction Company, which consisted to a very large extent of those who were interested in the Canadian Pacific, and were actively engaged in carrying on its operations, made a contract with the Canadian Pacific to build the railway for a certain sum in cash and stock. The object of making the contract, we are further told, was to enable the railway company to put its stock on the market and be able to satisfy those who might be disposed to buy, that a *bona fide* contract had been entered into on the basis of the Company's estimate as to the cost of the line. You will see at a glance that no deception could have been intended here, the arrangement was beautifully simple.

But the stock could not sell—the public did not want it, and—happy Construction Company!—they were let out of their engagements to build the line for the cash payments and the stock. One

would naturally have concluded under such circumstances that this wealthy construction company would have been required to carry out its contract and itself find a market for the stock which it had agreed to take in part payment for work to be done.

The public interest in the question now centres upon what this advance of thirty millions is going to lead to. In well informed circles the impression prevails that before the session is over there will be other demands upon the Treasury which the Government will be compelled to meet in order to secure sufficient support in the House to pass their proposed resolution—that what with the demands for better terms and subsidies for other undertakings, the amount of thirty millions may swell up to sixty or seventy millions.

Another question of vital importance is whether, even with the aid of the Government, so long as those who have the Canadian Pacific Company in charge continue at its head, confidence will be sufficiently restored to admit of any of the securities of the Company being sold, or whether or not the discredit which has been created, if a radical remedy is not applied, will not continue to operate against the North-West and retard its settlement and the realization of cost for the lands which the Company is entitled to. If such should prove to be the case, then it is manifest that the loan now proposed to be made will not be repaid, and that it will become simply a permanent contribution toward the cost of building the road.

Is not the course being taken and the proceedings of the Company and the Government calculated to destroy public credit? It is admitted that the Company has had large advances—in one case five millions of dollars on ten millions of its stock—and it would be interesting to know if this advance has been made by any of our Canadian institutions, and what security, other than stock, they have for it. The entanglement of any of our banking institutions, at this time, would prove a most serious matter, affecting every interest in the country.

Yours truly,

AN OBSERVER.